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FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEATS OECD PARIS 16619 ACTION DEPT JUNE 26TH

QUOTE

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TAGS: ENRG, OECD

SUBJ: IEA: DECISIONS TO BE MADE BY THE GOVERNING

BOARD ON SEQ ISSUES

BEGIN TEXT:

1. THE STANDING GROUP IS DUE TO REPORT TO THE GOVERNING
BOARD ON TWO GROUPS OF DECISIONS NEEDED:

(A) DECISIONS WHERE A 1ST JULY DEADLINE IS LAID DOWN
IN THE AGREEMENT;

(B) DECISIONS RELATING TO THE REPORT BEING PREPARED
FOR THE GOVERNING BOARD ON ALLOCATION PROCEDURES. BOTH
SETS OF ISSUES WERE DISCUSSED AT THE LAST MEETING OF THE
SEQ. THIS NOTE PRESENTS THE RESULTS OF THAT DISCUSSION
IN A FORM DESIGNED TO FACILITATE GOVERNING BOARD
DECISIONS ON THE FOLLOWING QUESTIONS:

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(I) EMERGENCY RESERVE COMMITMENTS AND THE DEFINITION
OF ABSOLUTELY UNAVAILABLE STOCKS.

(II) INCLUSION OF MARINE BUNKERS IN FINAL CONSUMPTION
FOR THE PURPOSE OF CALCULATING ALLOCATION RIGHTS.

- (III) DEMAND RESTRAINT MEASURES APPLICABLE TO MARINE BUNKERS.
- (IV) DEMAND RESTRAINT MEASURES APPLICABLE TO AVIATION BUNKERS.
- (V) INCLUSION OF NAPHTHA FOR NON-ENERGY USE IN FINAL CONSUMPTION FOR THE PURPOSE OF CALCULATING ALLOCATION RIGHTS.
- (VI) THE BASE PERIOD (ART.18.2 OF THE AGREEMENT).
- (VII) THE TRIGGER MECHANISM.

2. DRAFT GOVERNING BOARD DECISIONS ON THESE ISSUES ARE APPENDED AS ANNEXES TO THE PRESENT NOTE. SOME HAVE BEEN PREPARED IN DETAIL BY THE STANDING GROUP WHILE OTHERS HAVE BEEN DRAFTED BY THE SECRETARIAT TO TAKE ACCOUNT OF THE VARIOUS VIEWS EXPRESSED AT THE LAST MEETING OF THE SEQ.

3. IN ORDER TO ASSIST THE GOVERNING BOARD IN ITS DISCUSSION OF THE ATTACHED TEXTS, I HAVE PREPARED THE FOLLOWING BRIEF NOTES ON THE VARIOUS SUBJECT AREAS EXPLAINING THE MAIN ISSUES.

A. EMERGENCY RESERVE COMMITMENTS AND THE DEFINITION OF ABSOLUTELY UNAVAILABLE STOCKS.

4. THE GOVERNING BOARD IS COMMITTED BY THE AGREEMENT ART.2.2 TO MAKING A DECISION BY 1ST JULY 1975 ABOUT THE DATE ON WHICH THE EMERGENCY RESERVE COMMITMENT OF EACH PARTICIPATING COUNTRY SHALL BE RAISED TO 90 DAYS. PARTICIPATING COUNTRIES FIND THEMSELVES PLACED IN A GREAT VARIETY OF SITUATIONS IN RESPECT TO EMERGENCY RESERVES BECAUSE OF HISTORICAL FACTORS, GEOGRAPHICAL LOCATION AND THEIR OWN ROLE WITH RESPECT TO THE INTERNATIONAL OIL INDUSTRY.

THE STANDING GROUP CONSIDERS THAT A NUMBER OF FACTORS NEED TO BE STUDIED AND ANALYZED BEFORE A FINAL DECISION IS POSSIBLE. AMONG THESE FACTORS THE MOST IMPORTANT ARE:

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- THE PRECISE NATURE OF IEA RESERVE COMMITMENTS IN COMPARISON WITH EEC RESERVE COMMITMENTS AND THE IMPLICATIONS OF THESE COMMITMENTS FOR A COMMON DATA-BASE FOR IEA COUNTRIES.
- THE ACTUAL STATE OF AFFAIRS WITH REGARD TO THE 60 DAYS EMERGENCY RESERVE COMMITMENT IN PARTICIPATING COUNTRIES AND IMPLICATIONS FOR ECONOMIES AND THE ENVIRONMENT OF INCREASING STOCKS TO 90 DAYS.
- THE IMPACT ON THE OIL MARKET OF INCREASING STOCKS TO 90 DAYS.
- THE COST OF INCREASING STOCKS TO 90 DAYS AND ITS FINANCING.

- THE ACTUAL STATE OF AFFAIRS WITH REGARD TO STORAGE CAPACITY AND AN ESTIMATE OF THE ADDITIONAL CAPACITY NEEDED INCLUDING THE LEAD-TIME TO BUILD THIS CAPACITY.
- TECHNICAL CONSTRAINTS ON INCREASING STOCKS TO 90 DAYS.

IT WAS ENVISAGED WHEN THE AGREEMENT WAS SIGNED THAT THE AGENCY WOULD WITHIN A SHORT PERIOD OF TIME HAVE AT ITS DISPOSAL THE INDUSTRY ADVISORY BOARD TO GIVE IT THE TECHNICAL HELP IT NEEDED IN MAKING DECISIONS ON A VARIETY OF QUESTIONS INCLUDING THE QUESTION OF INCREASE IN OIL STOCKS. UNFORTUNATELY, THE IAB WAS SET UP ONLY A FEW MONTHS AGO AND IT HAS NOT YET BEEN ABLE TO PROVIDE THE STANDING GROUP WITH ADVICE ON THE LIST OF IMPORTANT ISSUES GIVEN IN ANNEX I TO THE PRESENT NOTE. THE DRAFT DECISION WHICH HAS BEEN PREPARED FOR THE GOVERNING BOARD TAKES ACCOUNT OF THIS SITUATION WHILE REAFFIRMING THE 90-DAY COMMITMENT OF MEMBER COUNTRIES AND ENCOURAGING SOME STRENGTHENING AT LEAST IN THE OVERALL STOCK SITUATION.

5. FROM A TECHNICAL POINT OF VIEW OTHER PROBLEMS ARE CLOSELY RELATED TO THAT OF EMERGENCY RESERVE COMMITMENTS:
- STOCKS IN RESPECT OF MARINE BUNKERING.
 - STOCKS IN RESPECT OF NON-ENERGY USE OF NAPHTHA.
 - FUEL SWITCHING AND STANDBY PRODUCTION CAPACITY.
 - 'OIL STOCKS AT SEA'

FOR THESE REASONS, INTER ALIA, THE SEQ HAS NOT BEEN ABLE TO COMPLY FULLY WITH THE CALENDAR FORESEEN IN THE LIMITED OFFICIAL USE
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AGREEMENT UNDER WHICH IT SHOULD HAVE PROPOSED A FINAL DATE FOR RAISING STOCKS TO 90 DAYS BY 1ST JULY, 1975.

6 AS FAR AS ABSOLUTELY UNAVAILABLE STOCKS ARE CONCERNED, VIEWS IN THE STANDING GROUP ON EMERGENCY QUESTIONS WERE DIVIDED BETWEEN THOSE PARTICIPATING COUNTRIES WHICH CONSIDER THAT THE AMOUNT OF ABSOLUTELY UNAVAILABLE STOCKS, EVEN IN THE MOST SEVERE EMERGENCY, IS VERY LOW AND WANTED THEREFORE TO SEE A DEDUCTION OF NO MORE THAN 3 PERCENT FROM TOTAL STOCKS IN RESPECT OF UNAVAILABLE STOCKS; AND THOSE COUNTRIES WHICH ON THE OTHER HAND CONSIDER IT ABSOLUTELY NECESSARY TO RETAIN THE EXISTING 10 PERCENT ASSUMPTION FOR ABSOLUTELY UNAVAILABLE STOCKS, DID SO NOT ONLY OUT OF CAUTION BUT ALSO BECAUSE THEY ARGUED THAT ABSOLUTELY UNAVAILABLE STOCKS SHOULD INCLUDE NOT ONLY UNUSABLE ELEMENTS SUCH AS WATER AND SLUDGE BUT ALSO AN AMOUNT OF OIL DEEMED NECESSARY TO MAINTAIN REFINING OPERATIONS. IT IS FOR THE GOVERNING BOARD TO MAKE A CHOICE BETWEEN THESE TWO FIGURES AND IN THE ABSENCE OF DETAILED TECHNICAL ARGUMENT

A CHOICE OF A PERCENTAGE FIGURE WILL INEVITABLY BE SOMEWHAT ARBITRARY.

7 THE DRAFT DECISION OF THE GOVERNING BOARD SHOWN IN ANNEX I IS PRESENTED AS A PROPOSAL FROM THE STANDING GROUP WITH THE RESERVES APPARENT FROM THE TEXT.
B. THE INCLUSION OF MARINE BUNKERS IN FINAL CONSUMPTION FOR THE PURPOSE OF CALCULATING ALLOCATION RIGHTS; DEMAND RESTRAINT MEASURES APPLICABLE TO MARINE BUNKERS

8. THERE IS NOT A GENERAL CONSENSUS IN THE STANDING GROUP ON EMERGENCY QUESTIONS THAT WHEN GLOBAL ALLOCATION RIGHTS ARE CALCULATED, MARINE BUNKERS SHOULD TECHNICALLY BE ADDED TO THE FIGURE OF FINAL CONSUMPTION. THIS DOES NOT IMPLY ANY MODIFICATION TO THE DEFINITION OF FINAL CONSUMPTION GIVEN IN ARTICLE 7.8 OF THE AGREEMENT. INITIALLY, DURING AN EMERGENCY, ALLOCATION FOR MARINE BUNKERS WILL BE BASED ON BASE PERIOD DATA BUT IT WILL SUBSEQUENTLY BE CALCULATED WITH THE HELP OF A SPECIAL GROUP OF EXPERTS SET UP TO COPE WITH BUNKER ALLOCATION.

AT THE SAME TIME THE SEQ RECOMMENDS THAT A DECISION LIMITED OFFICIAL USE
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ON THIS ISSUE SHOULD NOT IN ANY WAY PREJUDICE THE OUTCOME OF THE DISCUSSION ON STOCKS FOR MARINE BUNKERS WHERE THE SEQ IS NOT YET READY TO MAKE A RECOMMENDATION TO THE GOVERNING BOARD. AS FAR AS DEMAND RESTRAINT MEASURES APPLICABLE TO MARINE BUNKERS ARE CONCERNED, DELEGATES ACCEPTED ON A PROVISIONAL BASIS THE THESIS THAT IN AN EMERGENCY TOTAL MARINE BUNKER DEMAND WOULD AUTOMATICALLY DROP TO AT LEAST THE SAME EXTENT AS INLAND CONSUMPTION LEVELS UNDER DEMAND RESTRAINT. AT THE SAME TIME IT WAS FELT THAT SOME MECHANISM WOULD BE NEEDED FOR COPING WITH THE SITUATION IF TOTAL MARINE BUNKER DEMAND DID NOT DROP TO THE SAME EXTENT AS INLAND DEMAND. SOME DELEGATIONS WERE KEEN THAT IN THOSE CIRCUMSTANCES THE GENERAL LEVEL OF DEMAND RESTRAINT SHOULD BE MADE APPLICABLE ALSO TO MARINE BUNKERS WHILE OTHER DELEGATIONS CONSIDERED THAT IN THOSE CIRCUMSTANCES MARINE BUNKERS SHOULD BE ACCORDED SPECIAL TREATMENT OF SOME KIND. ALL MEMBERS OF SEQ AGREED THAT IN THE CASE OF OBLIGATORY DEMAND RESTRAINT FOR MARINE BUNKERS, COMMON RULES SHOULD BE APPLIED TO ALL IEA MEMBERS. THE VARIOUS VIEWPOINTS ARE INCLUDED IN THE DRAFT DECISION OF THE GOVERNING BOARD PROVIDED IN ANNEX II TO THE PRESENT NOTE.

C. DEMAND RESTRAINT IN RESPECT OF AVIATION BUNKERS

9. THE ORIGINAL RECOMMENDATION OF THE SEQ ON AVIATION BUNKERS LAST FEBRUARY WAS THAT PARTICIPATING COUNTRIES SHOULD CUT SUPPLIES BY 5 PERCENT IN THE EVENT OF AN EMERGENCY. ALTHOUGH THERE IS NOT YET UNANIMITY ON THIS

THE MAJORITY OF SEQ DELEGATES NOT CONSIDERS THAT THE CASE FOR PRIVILEGED TREATMENT OF THE INTERNATIONAL AVIATION INDUSTRY HAS DISAPPEARED AND THAT IT SHOULD BE SUBJECT TO THE SAME DEMAND RESTRAINT RULES AS INLAND CONSUMPTION. THIS IS REFLECTED IN THE DRAFT DECISION BY THE GOVERNING BOARD SHOWN IN ANNEX III TO THE PRESENT NOTE.

D. INCLUSION OF NAPHTHA FOR NON-ENERGY USE IN FINAL CONSUMPTION FOR THE PURPOSE OF CALCULATING ALLOCATION RIGHTS.

10. ON THIS ISSUE SEQ IS UNANIMOUS IN RECOMMENDING TO THE GOVERNING BOARD THAT NAPHTHA SHOULD BE INCLUDED IN FINAL LIMITED OFFICIAL USE
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CONSUMPTION IN THE SENSE OF ART.7.8 OF THE AGREEMENT. AT THE SAME TIME, THE SEQ RECOMMENDS THAT A DECISION ON THIS ISSUE SHOULD NOT IN ANY WAY PREJUDICE THE OUTCOME OF THE DISCUSSION ON STOCKS FOR NAPHTHA WHERE THE SEQ IS NOT YET READY TO MAKE A RECOMMENDATION TO THE GOVERNING BOARD. A DRAFT DECISION BY THE GOVERNING BOARD ON THIS ISSUE IS INCLUDED WITH CERTAIN OTHER ISSUES IN ANNEX IV TO THE PRESENT NOTE.

F. THE BASE PERIOD

11. UNDER ARTICLE 18.2 OF THE AGREEMENT THE STANDING GROUP ON EMERGENCY QUESTIONS SHOULD MAKE PROPOSALS ON THE BASE PERIOD TAKING ACCOUNT OF FACTORS SUCH AS GROWTH, SEASONAL VARIATIONS IN CONSUMPTION AND CYCLICAL CHANGES. THE STANDING GROUP HAS DECIDED THAT IN VIEW OF THE PRESENT STATE OF THE WORLD ECONOMY THE ADDITION OF GROWTH FACTORS WOULD NOT ONLY COMPLICATE ALLOCATION PROCEDURES BUT WOULD BE IRRELEVANT. THE STANDING GROUP WILL RETURN TO THIS QUESTION ON REQUEST OF ONE OR MORE DELEGATIONS WHEN GROWTH OF OIL CONSUMPTION HAS DEFINITELY RESUMED. (SEE ALSO ANNEX IV TO THE PRESENT NOTE.)

F. THE TRIGGER MECHANISM

12. THE TRIGGER MECHANISM IS DEFINED IN ARTICLES 12 AND 13 OF THE AGREEMENT IN A VERY GENERAL WAY. THE SEQ - WITH THE HELP OF THE IAB - HAS IN THE COURSE OF DRAFTING THE SO-CALLED EMERGENCY MANAGEMENT HANDBOOK ATTEMPTED NOT ONLY TO PROVIDE A MUCH MORE PRECISE DEFINITION OF THE TRIGGER MECHANISM BUT ALSO TO SET OUT EFFICIENT PROCEDURES FOR PROVIDING THE NECESSARY DATA. ANNEX IV TO THE PRESENT NOTE PROVIDES A DRAFT DECISION BY THE GOVERNING BOARD TOGETHER WITH AN ATTACHMENT DESCRIBING THE TRIGGER MECHANISM AND THE SYSTEM OF THE CONSENSUS

FORECAST WHICH IS AN INTEGRAL PART OF IT ACCORDING TO
THE PROCEDURES WHICH HAVE NOT BEEN ELABORATED IN THE
SEQ.

13. THE STANDING GROUP ON EMERGENCY QUESTIONS HOPES
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THAT THE GOVERNING BOARD WILL TAKE DECISIONS ON THE
ISSUES COVERED BY THE PRESENT NOTE ON ITS 30TH JUNE-
1ST JULY MEETING. THIS WOULD AID THE GROUP CONSIDERABLY
IN DRAWING UP A JOINT PROGRAM OF WORK WITH THE INDUSTRY
ADVISORY BOARD FOR THE COMING MONTHS AND MAKING BEST USE
OF AVAILABLE RESOURCES.

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